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CHINA ORIENTAL GROUP COMPANY LIMITED

中國東方集團控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code 581)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June Unaudited Consolidated		
	2010	2009	Change
	RMB	*RMB*	
Sales volume *(tonnes)*	**4.47 million**	3.19 million	+40.1%
Gross profit per tonne	**313 yuan**	235 yuan	+33.2%
Revenue	**15.35 billion**	9.17 billion	+67.3%
Gross profit	**1,396 million**	754 million	+85.1%
EBITDA[1]	**1,668 million**	996 million	+67.5%
Profit before income tax	**1,158 million**	540 million	+114.4%
Profit for the period	**872 million**	394 million	+121.3%
Profit for the period attributable to equity holders of the Company	**798 million**	358 million	+122.9%
Basic earnings per share	**0.27 yuan**	0.12 yuan	+125.0%
	As at		
	30 June 2010	31 December 2009	
	RMB	*RMB*	
Total assets	**16.79 billion**	15.19 billion	+10.5%
Net assets value per share (exclude non-controlling interests)	**2.65 yuan**	2.45 yuan	+8.2%

1 The Company defines EBITDA as profit for the period before finance costs-net, amortisation of intangible assets, amortisation of leasehold land and land use rights, income tax expense and depreciation.

* *For identification purpose only*

The board of directors (the "Board") of China Oriental Group Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 together with the comparative amounts for the corresponding period in 2009. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 has been reviewed by the Company's Audit Committee. PricewaterhouseCoopers, the Company's auditor, has conducted its review on the unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
		Unaudited	
Revenue	*4*	**15,349,900**	9,174,977
Cost of goods sold		**(13,953,481)**	(8,420,775)
Gross profit		**1,396,419**	754,202
Other income		**34,122**	21,780
Distribution costs		**(52,678)**	(17,661)
Administrative expenses		**(148,297)**	(130,954)
Other expenses		**(18,783)**	(9,716)
Other gains/(losses) – net		**16,595**	(20,548)
Operating profit	*5*	**1,227,378**	597,103
Finance income		**14,447**	17,349
Finance costs		**(82,738)**	(72,411)
Share of results of associates		**(1,510)**	(2,207)
Profit before income tax		**1,157,577**	539,834
Income tax expense	*6*	**(285,813)**	(145,463)
Profit for the period		**871,764**	394,371
Other comprehensive income:			
Fair value losses on available-for-sale financial assets		**(23,915)**	–
Total comprehensive income for the period		**847,849**	394,371
Profit for the period attributable to:			
– equity holders of the Company		**797,994**	358,231
– non-controlling interests		**73,770**	36,140
		871,764	394,371
Total comprehensive income attributable to:			
– equity holders of the Company		**774,079**	358,231
– non-controlling interests		**73,770**	36,140
		847,849	394,371
Earnings per share for profit attributable to equity holders of the Company during the period *(express in RMB per share)*			
– basic	*7*	**0.27**	0.12
– diluted	*7*	**0.27**	0.12

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June	31 December
		2010	2009
		RMB'000	*RMB'000*
	Note	**Unaudited**	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**8,229,707**	8,625,585
Leasehold land and land use rights	*9*	**72,314**	73,139
Investment properties	*9*	**17,193**	17,595
Intangible assets	*9*	**33**	–
Investment in associates		**23,461**	10,297
Deferred income tax assets		**85,330**	81,007
Total non-current assets		**8,428,038**	8,807,623
Current assets			
Available-for-sale financial assets		**72,233**	96,148
Properties under development		**195,718**	–
Inventories		**3,175,855**	2,598,021
Trade receivables	*10*	**1,738,423**	1,197,067
Other current assets		**18,840**	14,191
Prepayments, deposits and other receivables		**845,751**	1,125,231
Loan receivable		**20,000**	–
Financial assets at fair value through profit or loss		**122**	144
Amounts due from related parties		**777,005**	364,196
Restricted bank balances		**706,425**	342,486
Cash and cash equivalents		**813,356**	644,030
Total current assets		**8,363,728**	6,381,514
Total assets		**16,791,766**	15,189,137
EQUITY			
Equity attributable to equity holders of the Company			
Ordinary shares		**311,715**	311,669
Share premium		**2,190,291**	2,189,695
Other reserves		**1,205,522**	1,192,190
Retained earnings		**4,045,029**	3,475,204
		7,752,557	7,168,758
Non-controlling interests		**401,168**	291,992
Total equity		**8,153,725**	7,460,750

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		As at	
		30 June	31 December
		2010	2009
		RMB'000	*RMB'000*
	Note	**Unaudited**	Audited
LIABILITIES			
Non-current liabilities			
Borrowings		**646,770**	758,857
Other long-term payables		**470,652**	570,163
Deferred revenue		**26,256**	41,256
Amounts due to related parties		–	37,404
Total non-current liabilities		**1,143,678**	1,407,680
Current liabilities			
Trade payables	*11*	**2,125,290**	1,725,762
Accruals, advances from customers and other current liabilities		**2,561,404**	2,255,423
Amounts due to related parties		**346,868**	269,218
Current income tax liabilities		**153,093**	136,532
Other long-term payables – current portion		**175,736**	134,432
Borrowings		**2,063,179**	1,796,481
Dividends payable		**68,793**	2,859
Total current liabilities		**7,494,363**	6,320,707
Total liabilities		**8,638,041**	7,728,387
Total equity and liabilities		**16,791,766**	15,189,137
Net current assets		**869,365**	60,807
Total assets less current liabilities		**9,297,403**	8,868,430

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

China Oriental Group Company Limited (the "Company") was incorporated in Bermuda on 3 November 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda as a result of a group reorganisation.

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

Following the completion of the global offering, the Company's shares were listed on The Stock Exchange of Hong Kong Limited on 2 March 2004.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Group is mainly engaged in the manufacture and sales of iron and steel products. The Group has manufacturing plants in Hebei Province and Guangdong Province of the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

This condensed consolidated interim financial information was approved for issue by the Board on 9 August 2010.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34, 'interim financial reporting'. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting standards ("HKFRSs").

3. Accounting policies

Except as described below, the accounting policies applied in this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. This standard does not have any impact on the Group's condensed consolidated interim financial information for the six months ended 30 June 2010, as the Group has not entered into any business combination during the period.

- HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered this amendment did not have any impact to the Group as all the leases of land should still be classified as operating lease under the HKAS 17 (amendment).

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- "Additional exemptions for first-time adopters" (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRSs preparer.

- HKAS 39 (Amendment), "Eligible hedged items" is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has no hedging activities.

- HKFRS 2 (Amendment), "Group cash-settled share-based payment transaction" is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it does not have such share-based payment transactions, all of its share-based payment transactions are equity-settled.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual periods beginning or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2010 and have not been early adopted:

- HKFRS 9, "Financial instruments" addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets.

- HKAS 24 (Revised) "Related party disclosures" supersedes HKAS 24 "Related party disclosures" issued in 2003.

- Under "Classification of rights issues" (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities.

- Amendments to HK(IFRIC) – Int 14 "Prepayments of a minimum funding requirement" corrects an unintended consequence of HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction".

- HK(IFRIC) – Int 19, "Extinguishing financial liabilities with equity instruments".

- "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters" (Amendment to HKFRS 1).

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

(d) Properties under development

During the six months ended 30 June 2010, the Group entered into a new business segment, which is property development.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties under development are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

4. Sales and segment information

(a) Sales

The Group is principally engaged in the manufacture and sales of iron and steel products. Sales recognised for the six months ended 30 June 2010 and 2009 were as follows:

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	
Sales:		
Gross sales, less discounts and returns		
– H-section steel	**5,229,130**	3,281,568
– Strips and strip products	**5,896,319**	3,592,960
– Cold rolled sheets and galvanised sheets	**899,354**	344,843
– Billets	**3,332,486**	1,953,359
– Others	**–**	7,358
	15,357,289	9,180,088
Less: Taxes	**(7,389)**	(5,111)
	15,349,900	9,174,977

(b) Segment information

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and top management. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the decision-maker considers the business from a business perspective. From a business perspective, the decision maker assesses the performance of iron and steel and real estate.

(i) Iron and steel – Manufacture and sale of iron and steel; and

(ii) Real estate – Development and sale of properties.

The decision-maker assesses the performance of the operating segments based on a measure of revenue and operating profit. This measurement is consistent with that in the annual financial statements.

For the six months ended 30 June 2010, the properties of the real estate segment are still under development, and no sales revenue were recognised.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets are determined after deducting related allowance that is reported as direct offsets in the balance sheet. Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, investment properties, intangible assets, investment in associates, inventories, trade receivables, prepayments, deposits and other receivables, other current assets, amounts due from related parties, restricted bank balances and cash and cash equivalents.

Segment liabilities are those operating liabilities that result from the operating activities of a segment.

The segment assets and liabilities as at 30 June 2010 and 31 December 2009 are as follows:

	Iron and steel *RMB'000*	Real estate *RMB'000*	Total *RMB'000*
		Unaudited	
As at 30 June 2010			
Total segment assets	16,414,669	199,412	16,614,081
Unallocated:			
Deferred income tax assets			85,330
Available-for-sale financial assets			72,233
Financial assets at fair value through profit or loss			122
Loan receivable			20,000
Total assets per balance sheet			16,791,766
Total segment liabilities	5,666,181	40,025	5,706,206
Unallocated:			
Current income tax liabilities			153,093
Current borrowings			2,063,179
Non-current borrowings			646,770
Dividends payable			68,793
Total liabilities per balance sheet			8,638,041

	Iron and steel *RMB'000*	Real estate *RMB'000*	Total *RMB'000*
		Audited	
As at 31 December 2009			
Total segment assets	15,189,137	–	15,189,137
Total segment liabilities	7,728,387	–	7,728,387

5. Operating profit

The following items have been credited/(charged) to the operating profit during the six months ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	
Share options granted to directors and employees	**(30,912)**	(10,753)
Gain on disposal of property, plant and equipment	**1,760**	549
Depreciation of property, plant and equipment *(Note 9)*	**(440,661)**	(399,961)
Amortisation of leasehold land and land use rights *(Note 9)*	**(825)**	(825)
Depreciation of investment properties *(Note 9)*	**(402)**	(402)
Amortisation of intangible assets *(Note 9)*	**(7)**	–
Taxation on inter-group transfer of property, plant and equipment	**–**	(25,613)
Foreign exchange loss, net	**(316)**	(1,045)

6. Income tax expense

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	
Current income tax		
– PRC enterprise income tax	**290,136**	151,572
Deferred income tax	**(4,323)**	(6,109)
	285,813	145,463

7. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	
Profit attributable to equity holders of the Company	**797,994**	358,231
Weighted average number of ordinary shares in issue *(thousands)*	**2,929,600**	2,929,200
Basic earnings per share *(RMB per share)*	**0.27**	0.12

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

As at 30 June 2010, the Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) during the period based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	
Profit attributable to equity holders of the Company	**797,994**	358,231
Weighted average number of ordinary shares in issue used in calculating basic earnings per share *(thousands)*	**2,929,600**	2,929,200
Adjustments for options *(thousands)*	**13,853**	1,461
Weighted average number of ordinary shares and potential ordinary shares issued as the denominator in calculating diluted earnings per share *(thousands)*	**2,943,453**	2,930,661
Diluted earnings per share *(RMB per share)*	**0.27**	0.12

8. Dividends

(a) At a meeting held on 23 March 2010, the Board proposed a final dividend in respect of the year ended 31 December 2009 of HK$251.94 million (approximately RMB221.83 million), representing HK$0.086 per ordinary share. During the six months ended 30 June 2010, dividends of HK$176.98 million (approximately RMB154.39 million) were paid.

(b) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (for the six months ended 30 June 2009: nil).

9. Capital expenditure

	Property, plant and equipment	**Leasehold land and land use rights**	**Investment properties**	**Intangible assets**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Unaudited			
Six months ended 30 June 2010				
Opening carrying amount as at 1 January 2010	8,625,585	73,139	17,595	–
Additions	59,620	–	–	40
Disposals	(14,837)	–	–	–
Depreciation and amortisation *(Note 5)*	(440,661)	(825)	(402)	(7)
Closing carrying amount as at 30 June 2010	8,229,707	72,314	17,193	33
Six months ended 30 June 2009				
Opening carrying amount as at 1 January 2009	8,286,788	74,790	18,400	7,667
Additions	942,564	–	–	–
Disposals	(2,736)	–	–	–
Depreciation and amortisation *(Note 5)*	(399,961)	(825)	(402)	–
Closing carrying amount as at 30 June 2009	8,826,655	73,965	17,998	7,667

10. Trade receivables

	As at 30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Accounts receivable	**152,234**	118,105
Notes receivable – bank acceptance notes	**1,586,189**	1,078,962
	1,738,423	1,197,067

The credit policy usually adopted by the Group for the sales of iron and steel products to customers is to deliver goods either upon receipt in cash or upon receipt of bank acceptance notes with maturity dates within six months or letters of credit.

As at 30 June 2010 and 31 December 2009, the ageing analysis of trade receivables was as follows:

	As at 30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**1,695,018**	1,004,990
4 – 6 months	**43,405**	192,077
	1,738,423	1,197,067

11. Trade payables

	As at 30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Accounts payable	**1,446,340**	1,360,498
Notes payable	**678,950**	365,264
	2,125,290	1,725,762

As at 30 June 2010 and 31 December 2009, the ageing analysis of the trade payables was as follows:

	As at 30 June 2010	As at 31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Within 3 months	**1,546,427**	1,441,589
4 – 6 months	**500,085**	202,471
7 – 9 months	**62,357**	73,028
10 – 12 months	**7,800**	1,062
Above 1 year	**8,621**	7,612
	2,125,290	1,725,762

12. Capital commitments

Capital expenditure committed at the balance sheet date but not yet incurred was as follows:

	As at 30 June 2010	As at 31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Purchase of property, plant and equipment		
– Contracted but not provided for	**1,602,752**	1,936,442
– Authorised but not contracted for (a)	**78,418**	1,013,127
	1,681,170	2,949,569

(a) At a meeting held on 23 March 2010, the directors of Hebei Jinxi Iron and Steel Group Company Limited ("Jinxi Limited"), a 97.6% indirectly owned subsidiary of the Company, have resolved to terminate the rolled sheet project, and the capital commitment as at 31 December 2009 of approximately RMB765 million has been released.

13. Financial guarantee contracts

As at 30 June 2010, Jinxi Limited provided guarantees for certain bank borrowings in favour of third parties amounting to approximately RMB30 million (31 December 2009: approximately RMB30 million). The fair values of these financial guarantee contracts are not significant.

The Directors of the Company are of the view that such obligations will not cause an outflow of resources embodying economic benefits.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2010, the steel industry in the PRC has experienced a volatile period. The rise in iron ore prices after the Chinese new year, which is typically a low season in the industry, caused steel prices to increase significantly in March 2010. However, with the PRC government's introduction of measures to cool down the growth in the real estate industry and Europe's debt crisis, steel prices began to drop in mid-April of 2010. In July 2010, the Group is experiencing signs of steel price recovery which the Group believes to be sustainable.

Compared with the stagnant market and global economic recession in the first half of 2009, the global market in the first half of 2010 displayed improved sentiment. With the support of the PRC government's stimulus package, economic conditions in the PRC economy also improved during the first half of 2010. However, the relatively high price of raw materials such as iron ore and coke, and the drop in steel prices in the second quarter of 2010 posed a severe challenge for domestic steel enterprises.

In 2010, management of the Group has also paid close attention to the iron ore and coke market and has closely monitored the inventory level of the Group by having regular meetings with its production and purchase departments in order to adopt flexible operational strategies to cope with the changes in the iron ore and coke market.

In addition, the Group has also continued to implement various cost control measures to reduce its production and operating costs during the first half of 2010, which included setting energy saving and consumption reduction targets in many aspects of the production process and controlling its expenditure budget strictly, thereby raising its overall operational efficiencies.

The Group continued to be a market leader in the PRC for H-section steel and is capable of producing a wide range of H-section steel. During the six months ended 30 June 2010, the Group sold 1.48 million tonnes of H-section steel.

Located in Foshan, Foshan Jin Xi Jin Lan Cold Rolled Sheet Co., Ltd. ("Jinxi Jinlan") returned to profitability in the first half of the year, driven by a market oriented product mix, better management and enhanced operational efficiencies.

With the full operation of both the production assets acquired from Tangshan Fengrun Qu Hengfeng Iron and Steel Company Limited and the production facilities leased from Qianxi County Jinxi Wan Tong Ductile Iron Pipe Co., Ltd. in the prior year, the Group's overall production capacity of crude steel is currently at 11 million tonnes per annum. Driven by the increased capacity, both production volume and sales volume grew substantially in the first half of 2010 when compared with that of the same period of 2009, as a result of which the Group experienced growth in sales and increased its profitability for the first half of 2010.

For the six months ended 30 June 2010, the Group recorded revenues of RMB15,350 million, representing an increase of 67.3% as compared with that of the corresponding period in the prior year. Given the increase in revenue and its effective cost control measures, the Group sustained growth in its operating profit in the first half of 2010 when compared with that of the corresponding period in prior year. During the period under review, the operating profit and profit attributable to equity holders of the Company increased by 105.6% and 122.9%, respectively, as compared with those of the corresponding period last year.

During the first half of 2010, the Group purchased a piece of land located in Tangshan city, Hebei province for approximately RMB193 million as a property development project. The construction area is 310,000 sq m, and development planning for the site has begun. The project will be developed over three phases as a residential community targeting relatively high-income families in the area. The entire project is expected to be completed in four years.

Since the Group introduced the world's largest steel corporation ArcelorMittal as its strategic shareholder in 2008, collaboration between the two companies has grown considerably. ArcelorMittal appointed experienced executives to the Board to participate in decision making for the Group's business development. Technicians and management staff from ArcelorMittal were sent to our production sites on a regular basis to inspect their operations and provide professional advice.

BUSINESS REVIEW

Sales Volume

In the first half of 2010, the Group's total sales volume was 4.47 million tonnes (2009 corresponding period: 3.19 million tonnes), representing an increase of approximately 40%.

The Group's sales volume breakdown during the period was as follows:

	For the six months ended 30 June				
	2010		2009		Changes in
	Sales volume		Sales volume		Sales volume
	('000 tonnes)		*('000 tonnes)*		
H-Section steel	**1,481**	**33.1%**	1,103	34.5%	34.3%
Strips and strip products	**1,772**	**39.7%**	1,261	39.5%	40.5%
Cold rolled sheets and galvanised sheets	**202**	**4.5%**	87	2.7%	132.2%
Billets	**1,015**	**22.7%**	743	23.3%	36.6%
Total	**4,470**	**100.0%**	3,194	100.0%	39.9%

During the period under review, the Group experienced a substantial increase in sales volume. This was mainly attributable to the increase in production capacity to 11 million tonnes through leveraging internal potential and leasing production facilities from external parties, which allowed the Group to meet its customers' increasing needs.

Revenue

Revenue of the Group in the first half of 2010 was RMB15,350 million (2009 corresponding period: RMB9,175 million), representing an increase of approximately 67.3%.

The Group's revenue breakdown and average selling price by product (excluding value added tax) during the periods were as follows:

	For the six months ended 30 June					
	2010		2009		Changes in	
	Revenue *(RMB million)*	**Average selling price** *(RMB/tonne)*	Revenue *(RMB million)*	Average selling price *(RMB/tonne)*	Revenue	Average selling price
H-section steel	**5,228**	**3,530**	3,281	2,974	59.3%	18.7%
Strips and strip products	**5,894**	**3,326**	3,593	2,850	64.0%	16.7%
Cold rolled sheets and galvanised sheets	**898**	**4,446**	344	3,952	161.0%	12.5%
Billets	**3,330**	**3,281**	1,950	2,624	70.8%	25.0%
Others	**–**	**N/A**	7	N/A	N/A	N/A
Total	**15,350**	**3,434**	9,175	2,870	67.3%	19.7%

The increase in revenue was primarily due to an increase in the sales volume of the Group's products and an increase in its average selling price by 19.7% to RMB3,434 per tonne for the six months ended 30 June 2010 from RMB2,870 per tonne for the corresponding period in 2009. Increases in sales volume and average selling price of the Group's products were mainly driven by improved demand during the first half of 2010, as general economic conditions in the PRC continued to improve as compared to the corresponding period in 2009.

Cost of Goods Sold and Gross Profit

The consolidated gross profit of the Group in the first half of 2010 was RMB1,396 million (2009 corresponding period: RMB754 million), representing an increase of 85.1%. Gross profit margin was 9.1% (2009 corresponding period: 8.2%).

Average cost per tonne and gross profit per tonne during the period were as follows:

	For the six months ended 30 June					
	2010			2009		
	Average cost per tonne ***(RMB)***	**Gross profit per tonne** ***(RMB)***	**Gross profit margin**	Average cost per tonne *(RMB)*	Gross profit/(loss) per tonne *(RMB)*	Gross profit/(loss) margin
H-section steel	**3,113**	**417**	**11.8%**	2,845	129	4.3%
Strips and strip products	**3,025**	**301**	**9.1%**	2,542	308	10.8%
Cold rolled sheets and galvanised sheets	**4,218**	**228**	**5.1%**	4,125	(173)	(4.4%)
Billets	**3,084**	**197**	**6.0%**	2,307	317	12.1%
Total	**3,121**	**313**	**9.1%**	2,635	235	8.2%

Gross profit per tonne of the Group's products increased to RMB313 for the six months ended 30 June 2010 from RMB235 for the corresponding period in 2009, reflecting an increase of 33.2%. Gross profit margin increased to 9.1% for the six months ended 30 June 2010 from 8.2% for the corresponding period in 2009. The increase in gross profit margin was primarily due to a significant increase in the gross profit margins of H-section steel and cold rolled sheets and galvanised sheets, which were 11.8% and 5.1% respectively, for the first half of 2010, as compared to 4.3%, and a gross loss margin of 4.4% respectively, for the corresponding period in 2009.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had a workforce of approximately 13,000 and temporary staff of approximately 3,000. The staff cost included basic salaries and benefits. Staff benefits included discretionary bonus, medical insurance plans, pension scheme, unemployment insurance plan, maternity insurance plan and the fair value of share options, etc. Effective from July 2008, the Group implemented a workers' injury insurance scheme. The amount of contribution made to the Social Insurance Bureau was calculated at 1.5% based on the workers' wages. According to the Group's remuneration policy, the employees' package is based on the employees' productivity and/or sales performance, and is consistent with the Group's quality control and cost control targets.

FINANCIAL REVIEW

Capital Structure

In order to sustain a stable financial status, the Group closely monitors liquidity and financial resources.

As at 30 June 2010, the Group had cash and cash equivalent amounting to RMB813 million (31 December 2009: RMB644 million).

As at 30 June 2010, the Group's debt ratio, calculated by dividing the Group's total liabilities by total assets, was 51.4% (31 December 2009: 50.9%).

The net asset value per share of the Group as at 30 June 2010 was RMB2.65 (31 December 2009: RMB2.45), representing an increase of 8.2% as compared with that of 31 December 2009.

The consolidated interest expenses (including capitalised interest expenses) in the first half of 2010 amounted to RMB118.22 million (2009 corresponding period: RMB93.12 million). Interest coverage (earnings before interests and taxes divided by total interest expenses) was 10.7 times (2009 corresponding period: 6.6 times).

Capital Commitments

As at 30 June 2010, the Group had capital commitments of RMB1,681 million (31 December 2009: RMB2,950 million), which mainly consisted of capital commitments for the construction of a coking coal plant and other ancillary projects.

Financial Guarantee Contract

As at 30 June 2010, the Group's financial guarantee contract amounted to RMB30 million (31 December 2009: RMB30 million) which reflected the provision of guarantees for bank borrowings in favour of third parties.

Pledge of Assets

As at 30 June 2010, the net book value of the Group's property, plant and equipment amounting to approximately RMB656 million (31 December 2009: approximately RMB1,463 million), land use rights amounting to approximately RMB61 million (31 December 2009: approximately RMB61 million), inventories amounting to approximately RMB151 million (31 December 2009: approximately RMB67 million), notes receivable amounting to approximately RMB110 million (31 December 2009: approximately RMB102 million) and restricted bank balances amounting to approximately RMB706 million (31 December 2009: approximately RMB342 million) had been pledged as security for the Group's bank facilities.

Exchange Risks

As at 30 June 2010, Renminbi, US dollar, HK dollar and Euro accounted for 77.9%, 17.6%, 4.5% and 0.0% of the Group's total bank balances (including restricted bank balances) respectively (31 December 2009: 81.8%, 17.9%, 0.3% and 0.0% respectively). As the majority of the sales, purchases of raw materials and bank borrowings of the Group were in Renminbi, the Group's exposure to foreign exchange risk remained relatively low.

Interest Rate Risk

The interest rates of certain borrowings of the Group are subject to variation. An increased interest rate will increase the interest costs of both new borrowings and existing borrowings. At present, the Group does not use any derivatives to hedge its interest rate risk exposure.

Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009 corresponding period: nil).

Post Balance Sheet Events

There have been no events to cause material impact on the Group from the balance sheet date to the date of this report that should be disclosed.

FUTURE PROSPECTS

Since June 2010, the PRC government has imposed additional measures to regulate the steel industry, including strict regulation regarding the expansion of steel production capacities and the abolition of the export tax refund on steel products with a goal of accelerating consolidation in the steel industry, reducing inefficient capacities and conserving resources, which are believed to be beneficial to the healthy development of the steel industry.

While the high market price of iron ore and the stagnant selling prices for steel products since April 2010 put tremendous pressure on small steel plants with low production efficiency, this challenging market environment also creates opportunities for industry consolidation. While the Group has not yet identified specific target, the Group intends to explore opportunities for strategic mergers and acquisitions, with an aim to achieve continued growth.

Moreover, the Group intends to continue to optimize its existing product mix according to changes in market demand, while actively engaging in developing new types of steel products. The Group also intends to enhance its profitability by offering products with greater market demand and lower competition.

In addition, the Group will continue to strengthen its cost control by further enhancing its internal operational management and production efficiency, as well as saving consumption of raw materials and energy.

In order to sustain long-term stable development and minimise the impact of fluctuations in the price of a single product series, the Group intends to continue to explore new businesses to broaden its source of revenue. As part of this strategy, the Group entered into property development business in the first half of 2010.

ArcelorMittal, one of the Group's major shareholders, is the world's largest steel corporation. It possesses a complete supply chain and extensive experiences in doing transnational businesses. The Group is now exploring opportunities for collaboration with ArcelorMittal on upstream steel projects.

The Group will continue to adopt a prudent management approach and will pay close attention to market developments to respond quickly to the changes in the second half of the year. The management will also strive to maintain the Group's competitive advantages in the face of various challenges in 2010 through the aforementioned measures.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (the "Directors") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by the Directors during the period.

AUDIT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has established an audit committee (the "Audit Committee") comprised all three independent non-executive Directors, namely Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis with written term of reference in compliance with the requirements of the Listing Rules.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 and PricewaterhouseCoopers, the auditor of the Company, has conducted its review on the unaudited condensed consolidated interim financial information in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, throughout the period except the following deviation:

Under Code Provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Han Jingyuan serves as the Chairman of the Board and the Chief Executive Officer of the Group. The Board believes that there is no immediate need to segregate the roles of Chairman and the Chief Executive Officer of the Company because the role of chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons.

The Board will consider the segregation of the role of the Chairman and the Chief Executive Officer of the Company in the future.

APPRECIATION

The Group's encouraging results in the first half of 2010 were attributable to support from its staff and shareholders. The Board would like to take this opportunity to extend its deepest gratitude to its staff and shareholders. The Group will continue to pursue steady and healthy development in the second half of 2010, grow with its staff and share fruitful results with its shareholders.

By order of the Board
China Oriental Group Company Limited
Han Jingyuan
Chairman and Chief Executive Officer

Hong Kong, 9 August 2010

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Han Jingyuan, Mr. Zhu Jun, Mr. Liu Lei, Mr. Shen Xiaoling, Mr. Zhu Hao and Mr. Muktesh Mukherjee being the Executive Directors, Mr. Ondra Otradovec and Mr. Jean-Paul Georges Schuler being the Non-Executive Directors and Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis being the Independent Non-Executive Directors.

This announcement is published on the websites of the Company (www.chinaorientalgroup.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).